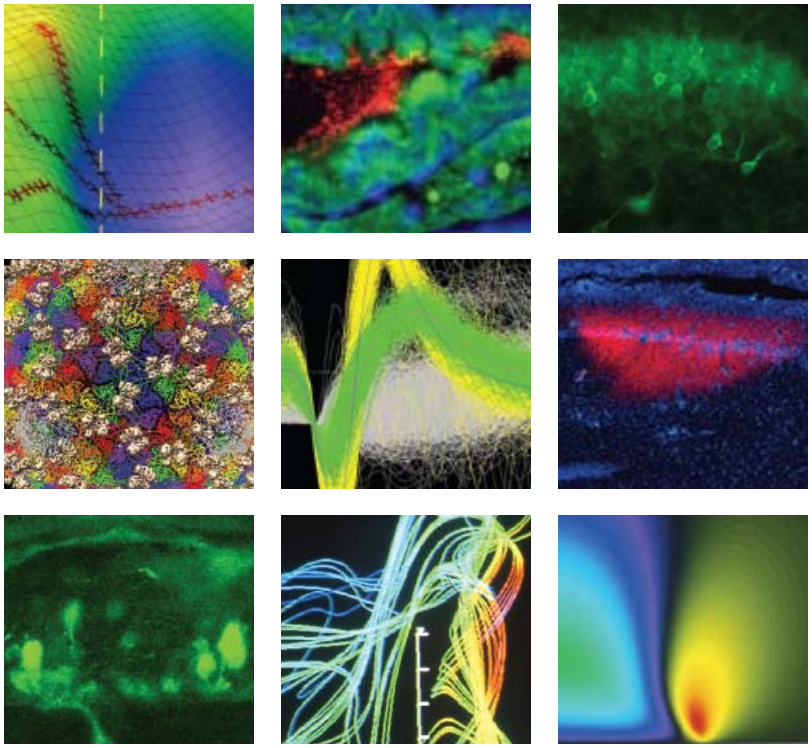
THE W. M. KECK FOUNDATION

2007 ANNUAL REPORT



FIELD POTENTIAL


OIL CO.,LTD.

W. M. Keck's Superior Oil Company flourished in California when Keck hit it big at Kettleman Hills. After the big East Texas fields came in, he expanded into Texas, then into Oklahoma, Kansas, Nebraska, Louisiana, Illinois and South America. For years, Superior held depth drilling records in four states. In the late 1930s Keck's drillers struck the first offshore crude oil in the Gulf of Mexico from a creosote-soaked wooden platform off Louisiana.

— "The Greatest Driller of 'Em All"/Forbes/September 15, 1976

CHAIRMAN'S MESSAGE

W. M. Keck, Sr. approached his philanthropy the one way he knew how – by rolling up his sleeves, taking risks and thinking big. His aims were not modest. He believed in backing the best people and giving them the means to succeed.

W. M. Keck knew from his own experience that the biggest breakthroughs start in the field. He learned his business from the ground up. It was the experience he gained working on oil rigs that enabled him to pioneer new technologies and ways of doing business. It was that pioneering spirit that enabled him to build Superior Oil into the largest independent oil company of its day and leave a legacy that will carry on for generations through the W. M. Keck Foundation and the extraordinary work of its grant recipients.

In this year's annual report, we reflect on W. M. Keck's commitment to field work by looking at some of our grants from the ground up, illustrating just a few of the ways in which the Keck Foundation has prospected for potentially transformative projects in the same regions where W. M. Keck prospected for oil many decades ago. Like W. M. Keck, we believe that the best way to determine a project's potential is to get out in the field and talk with grant applicants to learn about the problems and challenges they have identified and how they hope to solve them.

This report features grant recipients, who, though from many different scientific and societal disciplines, actually have a lot in common. They all sought to break new ground through collaborations between departments, research institutions and communities at a time when such interdisciplinary work was rare. In some cases it involved physically removing

walls, while in others walls between disciplines were figuratively removed in the pursuit of a common understanding and goal.

All of these grantees demonstrate our founder's pioneering spirit and combine it with adaptability, innovation and accomplishment. We are proud to be part of their success and to recognize their work in this year's annual report.

UPDATE ON SPECIAL PROJECTS

During the past year the Foundation continued its practice of making special, high-impact grants in areas the board of directors believe have breakthrough potential. Of particular note, we committed $24 million to the California Institute of Technology to establish the Keck Institute for Space Studies. The Institute will bring together the best and brightest scientists and engineers to develop new space-mission concepts and technologies in the fields of astronomy, astrophysics, and aeronautics.

An outside evaluation committee reviewed the 10 years of awards made under the Distinguished Young Scholars in Medical Research Program and found that it has made a positive difference for science and in the careers of the award recipients. We would like to take this opportunity to thank the Scientific Advisory Committee: Drs. William Butler, Gerald Fink, Elizabeth Neufeld, Norman Arnheim, Robert Rich and Marc Tessier-Lavigne for their many years of effort and support for this program.

GRANT GIVING

In addition to these special projects, the W. M. Keck Foundation paid out more than $60 million and awarded 39 new grants totaling $35 million in 2007. Of these, 20 were for science, engineering and biomedical research; 6 were for undergraduate education; and 13 were made under the Foundation's Southern California Program.

FOUNDATION GOVERNANCE

The W. M. Keck Foundation has long been committed to upholding a leading standard of good corporate governance. We operate with a small but expert staff, actively supported by a highly committed, independent and extremely well-qualified board of directors.

We continue to implement a number of important and positive changes that resulted from our earlier review of our grant application guidelines. We looked to the multi-disciplinary nature of the scientific process as a model and put in place a more collaborative approach to our internal processes. This has enhanced our work and I am confident it will help us better evaluate the outstanding projects that W. M. Keck Foundation receives.

We appointed three new directors: Mr. James A. Baker III, Mr. Nelson Rising and Mr. Bradford Freeman. They are exceptional individuals with world-class experience and insight. On behalf of my fellow directors, I am pleased to welcome these accomplished individuals to the board.

We also saw four long-standing and highly-valued directors step down: Mr. Walter B. Gerken, Mr. Julian O. von Kalinowski, Mr. Norman Barker, Jr. and Dr. Lew Allen, Jr. On behalf of the entire Foundation, I would like to extend my gratitude to each of them for many years of dedicated service.

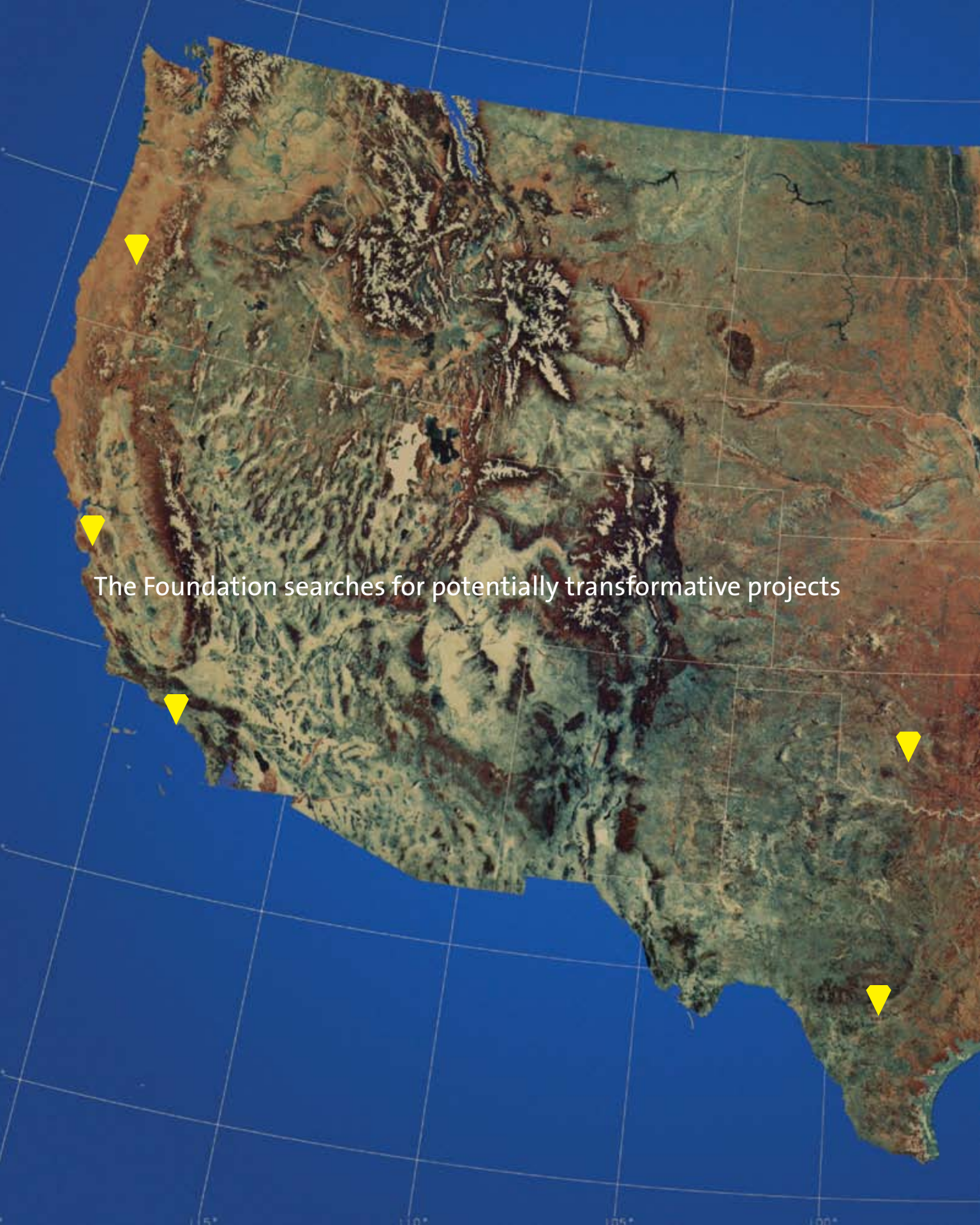
FINANCIAL MATTERS

The W. M. Keck Foundation continues to operate on a solid financial basis, with net assets of $1.5 billion as of December 31, 2007. The complete financial statements are available at the end of this report.

In closing, I want to thank our board and staff for their dedication and for another rewarding year of accomplishments in the pursuit of W. M. Keck's vision.

Sincerely,

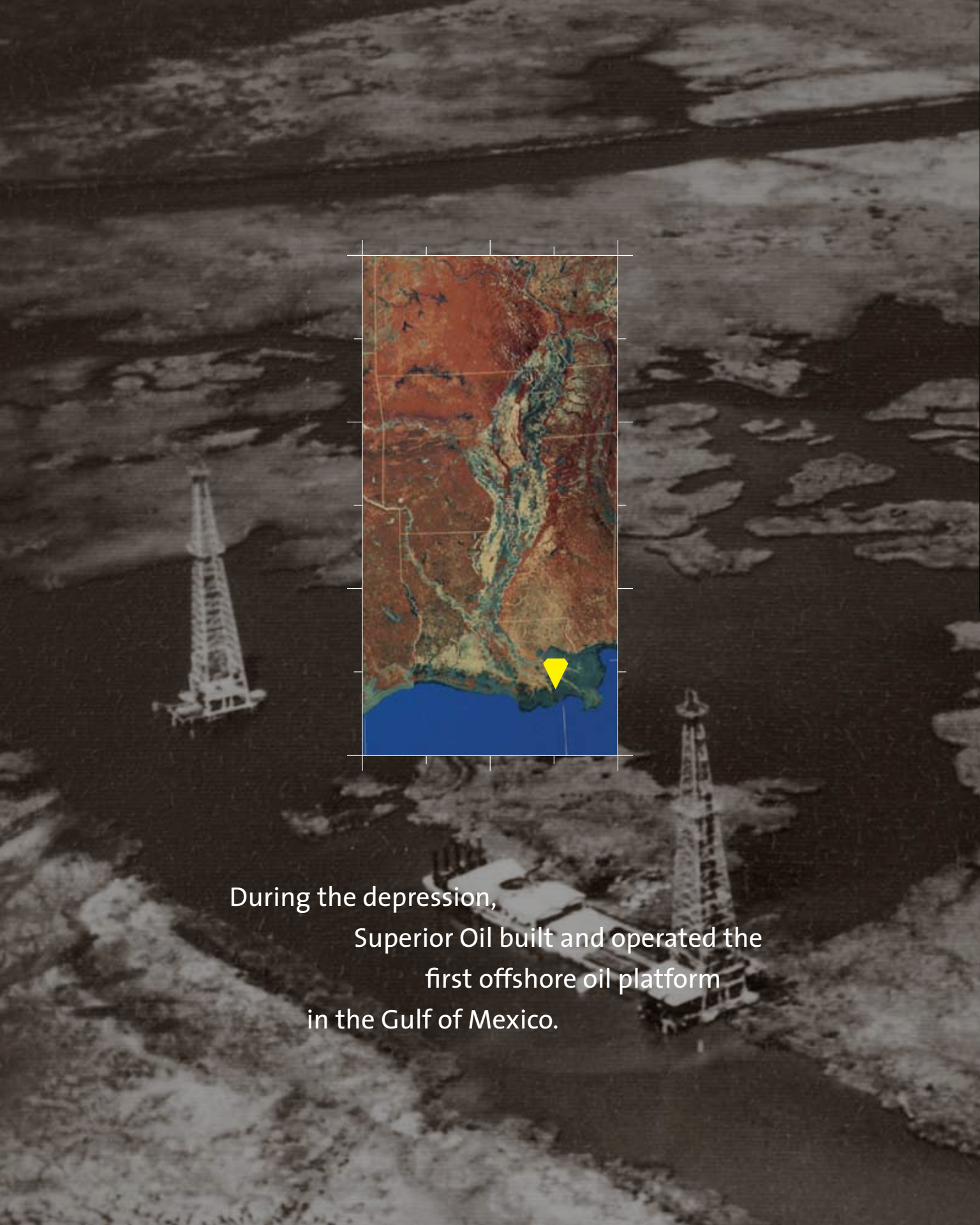
ROBERT A. DAY
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
W. M. KECK FOUNDATION


The Foundation searches for potentially transformative projects

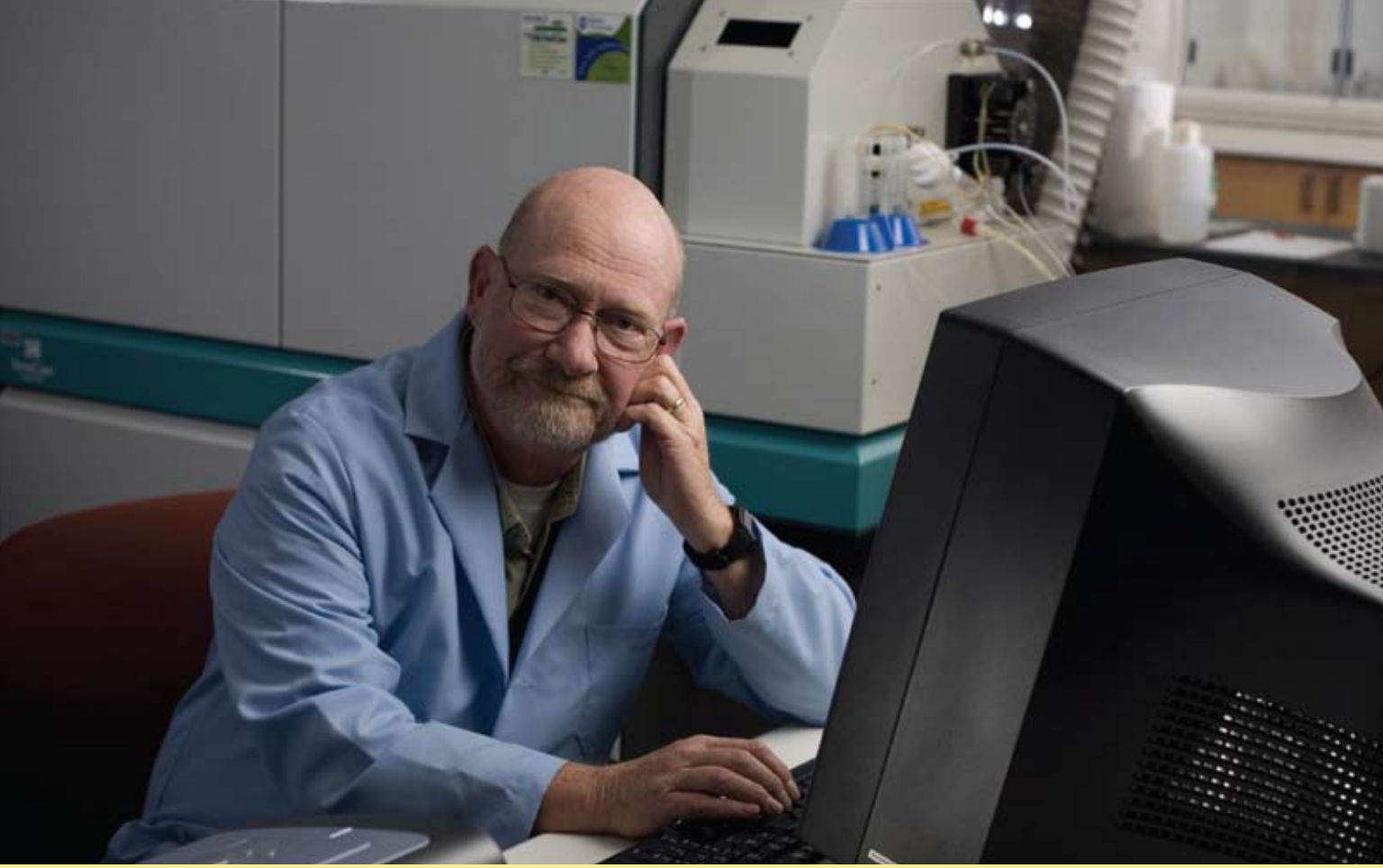
Mr. Keck's Superior Oil was a contract drilling company. It is said that Mr. Keck could "read" the soil by analyzing the surrounding geography, the types of rocks and the color of the soil. Making the right choice about where to drill was important: Superior only got paid if its rigs struck oil. At the W. M. Keck Foundation, grant making follows a similar process. We believe the best way to determine a project's potential is to get out in the field. We talk with applicants and learn about the problems they have identified and how they hope to solve them. The stories that follow show how the Keck Foundation's partnerships with experts, working in the same regions where Mr. Keck prospected for oil many decades ago, have paid new types of dividends in benefits for society.

nationwide, including the regions where W. M. Keck searched for oil.

ALBERS EQUAL AREA PROJECTION
MOSAIC OF FIFTEEN AVHRR IMAGES
24 MAY, 1984 - 14 MAY, 1986



During the depression,
Superior Oil built and operated the
first offshore oil platform
in the Gulf of Mexico.



PERMANENCE IN ALLUVIAL SOIL: BUILDING CAPACITY

Tulane University and Xavier University of Louisiana

Two decades ago, Tulane University in New Orleans began to engage seriously in the competition for major research dollars. Originally established in the early 1800s, Tulane already had a long and distinguished history of academic excellence. Yet the university was in a predicament. To compete successfully in the upper tiers of federal funding its laboratories needed modernizing, but state-of-the-art equipment costs a lot of money.

▲ *Gary McPherson in the CIF's NMR Lab. He sits in front of a high-resolution inductively coupled plasma mass spectrometer used to measure the isotopic composition of elements such as lead and uranium.*

Bill Alworth, then chair of Tulane's chemistry department, knew it would not be easy to accommodate the many instrumentation needs across the sciences. As he and his colleagues pondered how to juggle these requirements with meager funding, the costs only continued to rise. To escape this predicament, he proposed forming a Coordinated Instrumentation Facility (CIF) that would provide many departments with shared access to top-quality analytical and imaging equipment. To those outside of academia, this may seem like an obvious solution. But within the walls of higher education, shared facilities were not yet a common strategy due to thorny problems caused by the rigid budgetary structure of most university departments. Many faculty members were skeptical about Bill's idea, and some predicted outright failure. But Tulane's leadership supported the concept, and work on making the CIF a reality began.

The CIF came into existence in 1987 on the top floor of the then-new Center for Energy and Biotechnology, in part with the aid of Keck funding. After completion, new research partnerships across the disciplines flourished and funding increased dramatically. In their proposal reviews, federal grant-making agencies still consistently cite the infrastructure and staffing of the CIF as a major asset. The idea of sharing, triggered by a confounding lack of funds, led to an efficient and invigorating new research model and a growing national trend for core facilities. Ten years after founding the CIF, Tulane's annual external funding had tripled.

Tulane's administration made another move at this time that would expand local capacities by choosing to become a close partner with nearby Xavier University. Xavier, a historically Black college, already had a reputation for unprecedented success in sending undergraduates to medical schools, and was ready to make complementary links with neighboring Tulane. One of the earliest and still strongest of these links

Tommy Do and Harish Ratnayaka of Xavier University check photosynthesis and fluorescence in two types of spinach in the Keck Greenhouse.

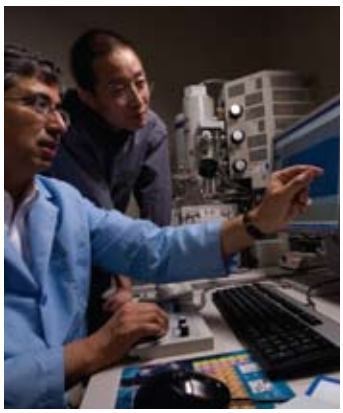
John McLaughlin and Richard Campanella in the Environmental Informatics Lab reviewing data on land above and below sea level in New Orleans.

Gene D'Amour, one of the founders of the Tulane/Xavier Center for Bioenvironmental Research, in front of Xavier University.

blends faculty from 25 disciplines in the Tulane/Xavier Center for Bioenvironmental Research (CBR). When CBR Director John McLachlan arrived in 1995, new groups began forming to study petrochemical waste, global change and regional water quality problems. A 1996 Keck grant helped equip a key laboratory focused on bioremediation and toxicology. This lab was perfectly timed to stimulate interactions among faculty, graduate students and undergraduates. Previously isolated research that had been dispersed across both campuses developed new momentum when participants were united around a shared mission, shared tools and a tremendous diversity of expertise. In the CBR's main building, one floor alone is home to a neuroscientist, a rain forest entomologist, a climate modeler, a geochemist and a polymer physicist.

Our story now fast forwards to 2005. After Hurricane Katrina, colleges in New Orleans had to close their doors temporarily, including Xavier and Tulane. Tulane had been forced to close its doors only once before, during the Civil War. Despite Katrina's devastation, both campuses mobilized for the clean up with verve and stamina, although survival of the CIF was touch and go. It was inaccessible by normal means for weeks, but a crane and a crowbar enabled sufficient access through a sixth floor window for the researchers to bring in cryogens and other crucial maintenance supplies. After weeks of effort, and with help from a guerrilla-like network of informal suppliers, the CIF was finally able to reopen at full operating capacity.

The monumental damage caused by Katrina and the ongoing clean-up effort has prompted faculty members to start new research dealing with their local surroundings.



Vijay John and Jibao He using a cryo transmission electron microscope.

Work in the less badly damaged CBR continued, but today that work has been transformed. The monumental damage caused by Katrina and the ongoing clean-up effort have prompted faculty members to start new research dealing with their local surroundings. Some of the work housed in the CBR had always had a local emphasis, but the storm experience both deepened and expanded this focus. One researcher, Jeff Chambers, who studies the forest canopy in Brazilian rain forests, is now tracking the loss of local canopy due to Katrina, and the resulting loss of carbon sequestration and its potential impact on the climate. Geographers are scrutinizing the topography of New Orleans to guide decision-making in the recovery effort. Geologists are working with civil engineers to better understand sediment deposition and its implications on the design of public works. In addition to these local projects, CBR faculty are increasingly reaching out to other river cities of the world to solve the problems of sustainability in estuarine environments. A new depth of meaning pervades the CBR, the CIF and the campuses of Xavier and Tulane. They have much to teach us about contending with adversity, responding to needs – and never giving up.

HARNESSING COMPUTATIONAL POWER

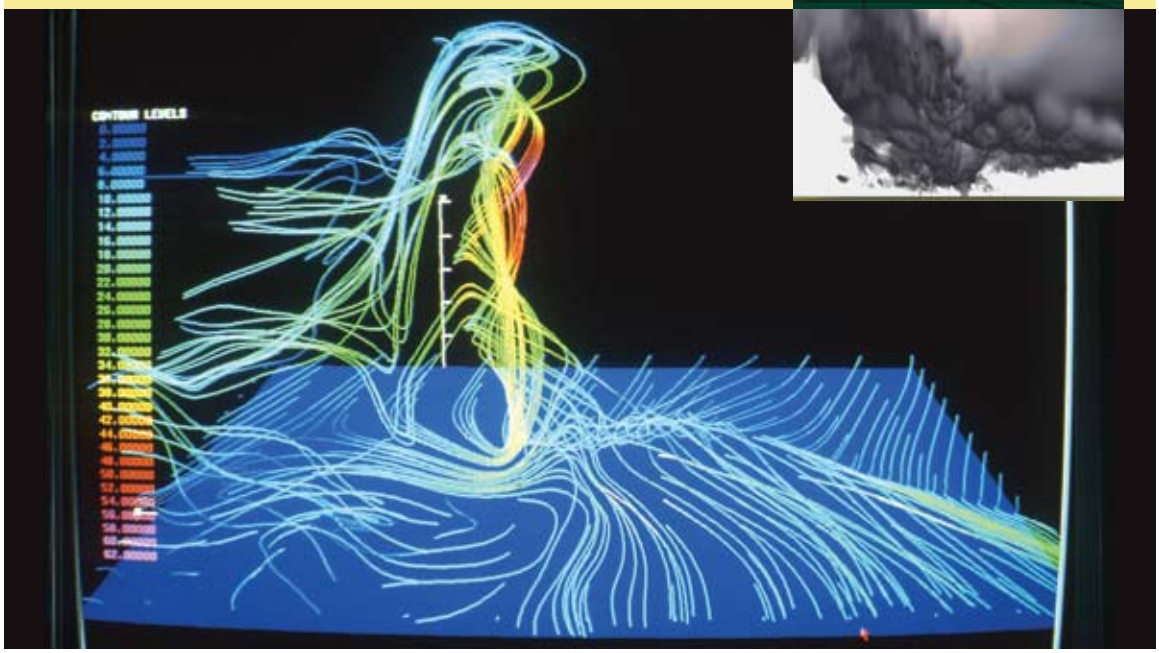
University of Oklahoma

The University of Oklahoma (OU) recruited remote sensing expert Lee Williams and weather modeler Kelvin Droegemeier to their faculty in the mid-1980s. OU's newly equipped geosciences computing facility proved a key attraction to both men: although their research deals with the natural phenomena of land and sky, most of their work takes place indoors behind a computer. Kelvin and Lee soon expanded this facility into the sophisticated Geosciences Computer Network (GCN), linking campus-based multidisciplinary groups studying energy resources and severe storm prediction with key off-campus government and industrial collaborators.

In 1988, however, the GCN, which is used heavily for teaching undergraduates as well as for graduate and faculty research, needed crucial equipment. Its dual use made it a difficult fit for federal research grants. A Keck grant provided the computing power at a critical time in the network's growth. The GCN later became one of the first computing centers to blend the emerging technology of geographic information systems with three-dimensional visualizations, creating powerful new data analysis capabilities.

A more subtle result of the grant came from the quick, relatively transparent nature of the Keck review process. The refreshing simplicity of this process inspired Lee, now Vice President for Research, to develop a method of stimulating faculty research that he calls "reward-based entrepreneurial science." In this model, if faculty present a solid plan and compelling arguments for pursuing a new idea, Lee gives them seed funds on the spot. This popular approach now permeates the university, resulting in faculty who are "passionate for their work and business-like in getting the money to support their passions." That is one change no computer ever predicted!

OU National Weather Center (top left); simulations made a decade apart of thunderstorms and supercells (below right, 2008 and bottom, 1998).



After big strikes in East Texas,
Superior Oil expanded its operations to
adjoining states and to South America.

FORMING COMPOSITES: BUILDING COLLABORATIONS

Baylor College of Medicine and the Texas Medical Center

When Baylor College of Medicine and Rice University approached the Foundation simultaneously in 1988, neither group had thought of working together to seek support for a joint project. Other research institutions were generally considered competitors for funding. Even though the Foundation declined to fund either request, the chair of Keck's Medical Research Committee took an interest in the proposals. A Houstonian

▲ *William Butler in the archives of the Baylor College of Medicine.*

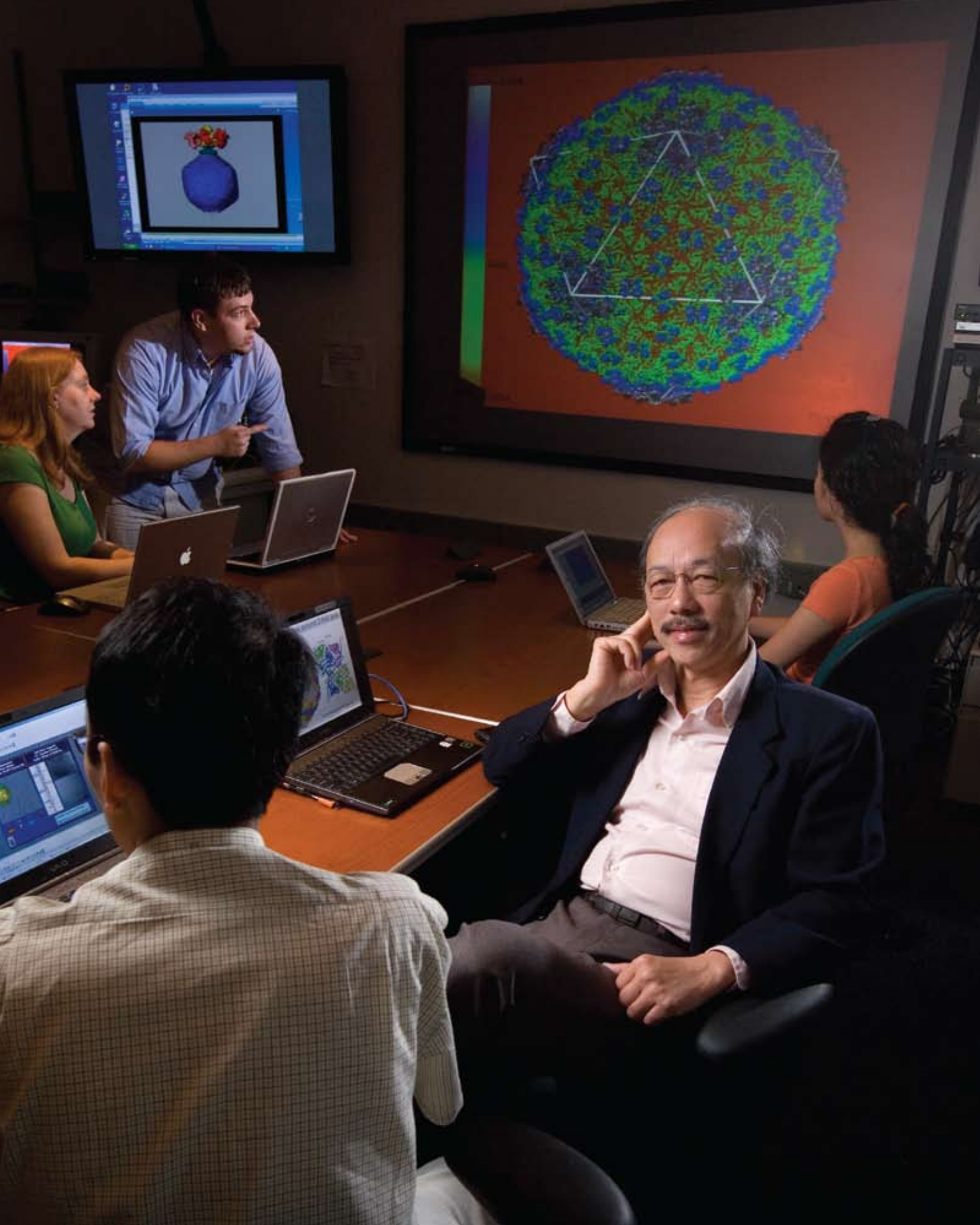
himself, the late Max Lents recognized the quality and potential of Houston's research institutions and noted how the proposed programs at Baylor and Rice might complement each other. He suggested that they submit a request for a collaborative program in computational biology.

In the late 1980s "interdisciplinary" and "collaborative" were not yet the buzzwords they are today. Instead, competition meant that duplication of major instrumentation was common, even among institutions located a short distance from each other. The Foundation had previously funded interdisciplinary projects that bridged different departments at the same university, but until then, it had never funded joint projects *between* research institutions. Kathleen Matthews, who then chaired the department of biochemistry and cell biology at Rice, remembers that the collaboration initially "flew under the radar." As additional faculty members got involved in the planning, however, their enthusiasm percolated upwards and caught the administration's attention.

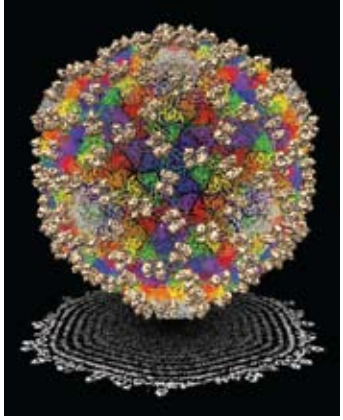
William Butler, Chancellor Emeritus at Baylor, recalls that the Foundation had sown the seeds for an ambitious cross-institutional collaboration several years before, when Baylor received two planning grants in 1980 and in 1986 to create a physical facilities master plan and to evaluate the college's future direction. For this study, dubbed *Research 2000*, external advisors assessed the college's leadership potential in important scientific fields, and recommended what Baylor might do to develop its own cutting-edge, forward-looking science. By 1987, *Research 2000* had been distilled to seven initiatives meant to propel the college into the top tier of biomedical research institutions. "Keck was responsible for pulling the plan together," Bill says.

One of these initiatives called for investments in computational biology, which Baylor's advisors viewed as critical for analyzing the crush of data that would flow from the then-nascent Human Genome Project. Another recommendation suggested a collaboration in this area with Rice University, which had well regarded research and instructional

Kathleen Matthews discusses a transformed strain of E. coli *cells with students in a Rice University wet lab.*



Wah Chiu, students discuss a bacteriophage structure solved by cryo-electron microscopy and single particle imaging at an unprecedented resolution.



An image of epsilon15, *a bacteriophage which infects* Salmonella *bacteria, is displayed at near-atomic 4.5 Å resolution.*

programs in computational science. So the path had been laid when Keck asked if Baylor and Rice would like to collaborate. In 1989, the Foundation funded the W. M. Keck Center for Computational Biology, which provided interdisciplinary training, research fellowships, and academic symposia for the two founding institutions.

Once established, the Center grew rapidly. The University of Houston joined the collaboration in 1992, as did the University of Texas Health Science Center in 1998. Kathleen and Wah Chiu served as the Center's original scientific co-directors. Wah, a structural biologist, says that he did not originally anticipate the degree to which he and other participants would benefit. Many novel research approaches have emerged from the cross-disciplinary collaborations and grants from NSF and NIH have continued to fund the center.

The cross-town interactions have brought Wah and other faculty additional benefits as well. An enthusiastic instructor in the shared training programs, Wah recruits students from all participating institutions to his own laboratory. Students obviously benefit from the expanded training opportunities, but Wah says that being exposed to young researchers from a vast range of disciplines is highly beneficial to his scientific thinking as well, and is an opportunity he would never have had without the existence of the Keck Center.

By 2001, the four institutions participating in the original Keck Center joined with the University of Texas M. D. Anderson Cancer Center

New consortia in the GCC come together when faculty from any of the six institutions form a critical mass to address a common interest.

and the University of Texas Medical Branch at Galveston to create the Gulf Coast Consortia (GCC). The first Consortium builds on the lessons learned from the Keck Center and focuses on shared research in magnetic resonance imaging. The birth of the GCC reflected a sea change in thinking about cooperation with other institutions: in an unprecedented show of solidarity, all six member presidents convened to sign a formal memorandum of agreement pledging funding and support.

New GCC consortia come together when faculty from any of the six institutions form a critical mass to address a common interest. The many consortia now support more than 400 faculty in six interdisciplinary areas: chemical genomics, membrane biology, protein crystallography, magnetic resonance, bioinformatics, and theoretical and computational neuroscience. The GCC has received multiple federal grants to foster cross-disciplinary and cross-institutional training, including three NIH Roadmap Training awards for interdisciplinary research. As tangible proof of the interaction that now exists among the Houston-area research centers, Rice University is constructing a 10-story Collaborative Research Center adjacent to the Texas Medical Center. It will be devoted entirely to collaborative research and will host many of the activities of the Gulf Coast Consortia.

"People want to know how we make it work," Kathleen says. Although the presidents of the six institutions that make up the Gulf Coast Consortia are fully behind its many collaborative effects, "This came from the ground up," she says. "It works because the faculty believes in the concept."

TRANSFORMING OPPORTUNITIES

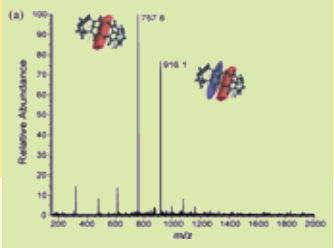
Trinity University

Twenty years ago, Trinity University in San Antonio, Texas, methodically set about to recruit the best possible science faculty to its campus in order to provide a uniformly high quality of education in all disciplines. One of its first targets was the chemistry department, which soon had three of its seven professors on NSF grants – the highest number in the country at the time among predominantly undergraduate institutions. Recognizing this early success, the Keck Foundation provided what would be the first of several grants to Trinity. The first was for chemistry equipment that was "absolutely transforming," according to professor Nancy Mills. A few years later, Trinity joined the Keck Geology Consortium, a national group of then 12 liberal arts colleges, in order to expand opportunities for student/faculty research both in the lab and out in the field. The Foundation's support again helped grow these geoscience efforts. A subsequent grant to Trinity supported engineering with hands-on labs and a design center.

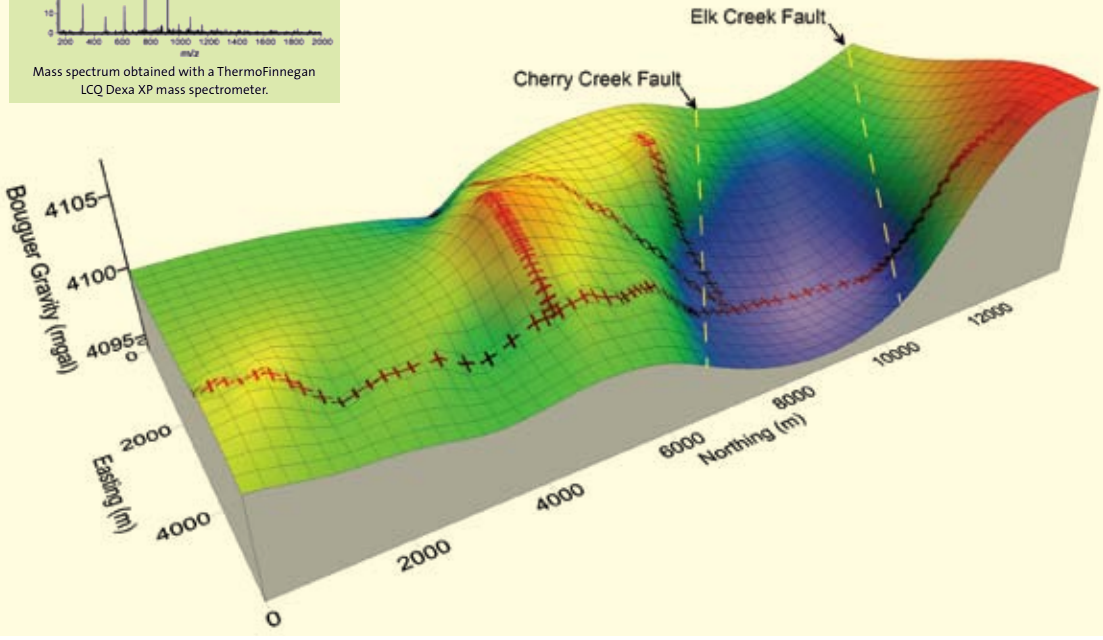
By 2003, the National Academies were calling for more linkages between the often separated science departments on college campuses. At Trinity, the biologists and chemists responded by combining their expertise and enthusiasm in an ambitious project

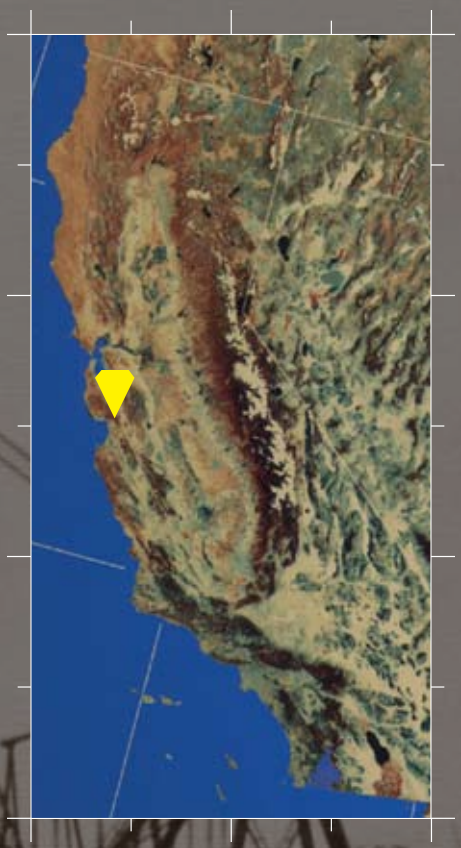
that integrated faculty research into a number of biology and chemistry courses, including "hand-off labs" in which materials generated by the labwork of one course are literally handed-off to a subsequent course for further experimentation. This curriculum is facilitated by the Keck Center for Macromolecular Studies, where sophisticated equipment and an attractive conference room stimulate ongoing interactions across the disciplines. These collaborative models are integral to upgrades currently being planned for science and engineering facilities at Trinity.

Mass spectrum of the binding of a synthetic receptor (upper left), and Bouguer gravity anomaly of a watershed in Montana (bottom).

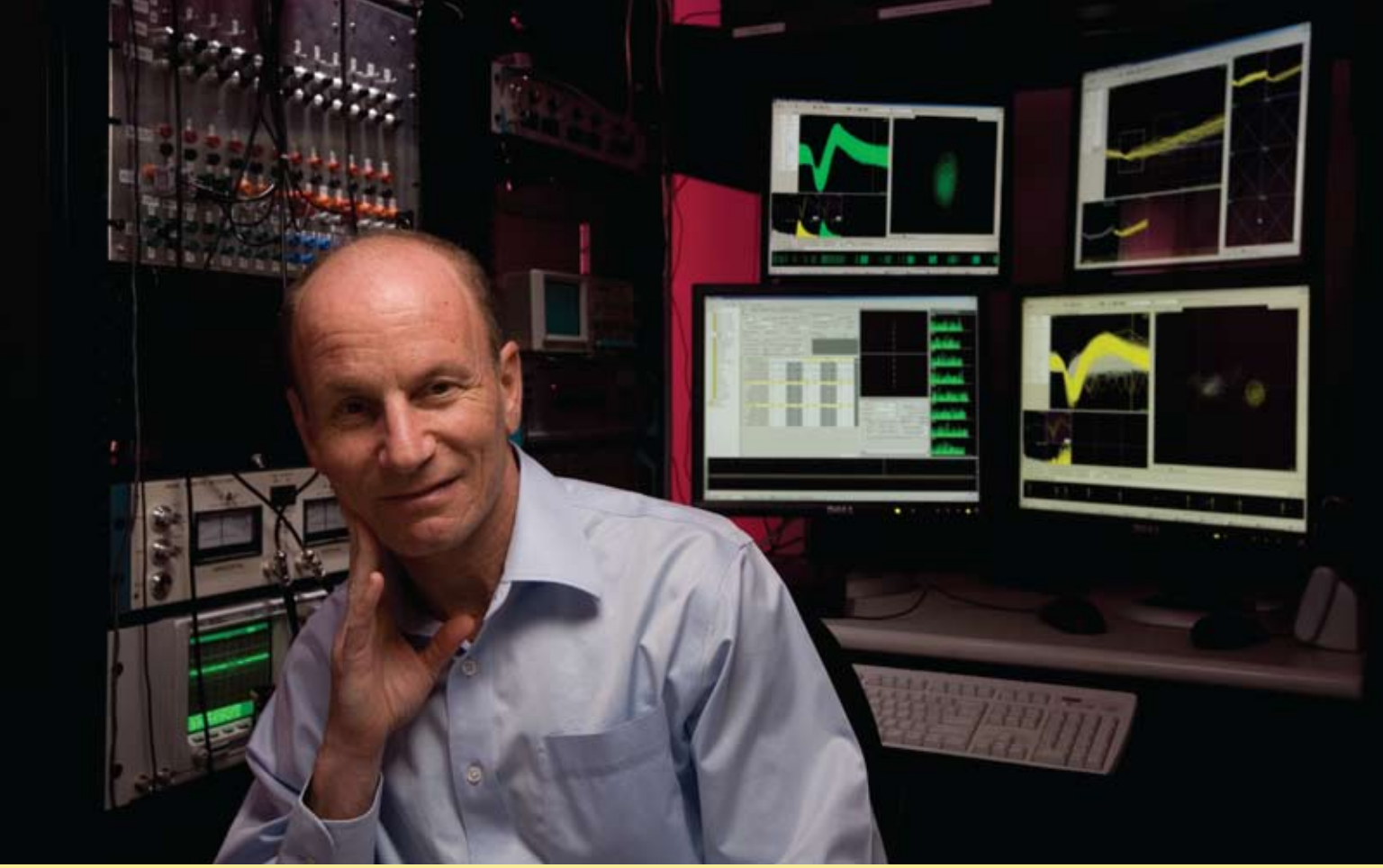


Mass spectrum obtained with a ThermoFinnegan LCQ Dexa XP mass spectrometer.





In 1931, Superior set a record in Coalinga for the deepest hole drilled in California.



NO FAULTS: BUILDING EXCELLENCE

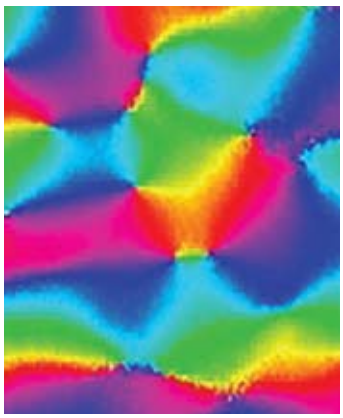
University of California, San Francisco

In 1990, the Keck Foundation partnered with the University of California, San Francisco to establish the Keck Center for Integrative Neuroscience. The mission of the Center, to investigate how the nerve cells in brains work together to generate human behaviors, embodies W. M. Keck's innovative, risk-taking spirit. "The Keck Center caused quite a buzz all over the country," said long-time director Stephen Lisberger. "Not just because

▲ *Stephen Lisberger in his lab. The monitors display neuronal action potentials.*

everybody wanted one, but because UCSF scientists were willing to take risks to address a big question: How does the brain work?"

Among the innovations was a unique facility that would bring researchers together in space designed to cultivate collaboration. "We wanted to create a physical structure where we would break down the walls between labs and almost force people to interact. We took a risk in giving up the concept of stand-alone labs. Surprisingly, we didn't meet with any resistance," Stephen said.



Map of neuronal activity in the visual cortex. Colors represent the contour angle that excites a column of neurons.

For Allan Basbaum, chair of the anatomy department, the Keck Center meant the difference between staying at UCSF or moving to a new institution. He remembers, "My lab was on the 13th floor of the science building. I felt completely isolated. I had been offered a position at another university and was practically out the door."

What was lacking, says Allan, was a sufficient number of neuroscientists in the Department of Anatomy. Moving to the Center provided him with the collaboration he craved. His anatomy lab started attracting high-caliber neuroscience students, and the positive effects on his research were immediate.

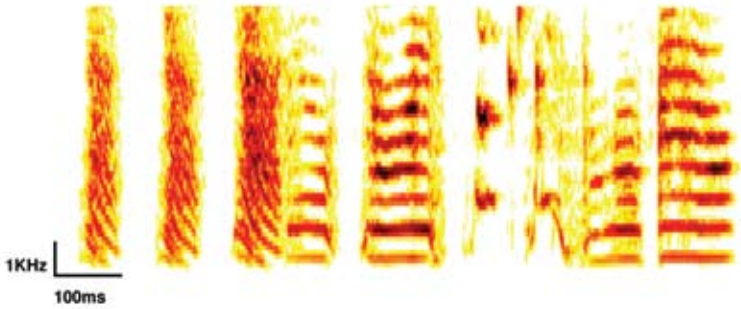
This rich collaborative environment has paid large dividends as the Center's activities coalesced around the shared goal of understanding how neural circuits and molecular mechanisms generate behavior. Some of the scientific contributions include new understandings of how and where the brain learns; how neurons in the brain interact with one another and form circuits; how these circuits generate behavior; and what happens in the brain as infants learn to see. For example, Michael Stryker seeks to understand how the brain wires itself correctly by studying the development of the visual system. Allison Doupe studies how the nervous system mediates behaviors by seeking to understand the neural basis of vocal learning in songbirds.

Michael Stryker in his physiology and imaging lab.

Another early risky decision at the Keck Center was the incorporation of a quantitative approach to studying of the brain. Stephen remembers:


A-M SYSTEMS

Allison Doupe studies zebra finch song for insights into how we learn complex behaviors.



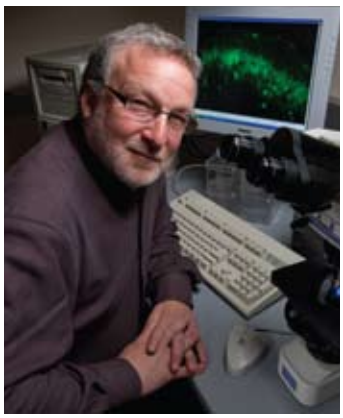
Spectrogram of a zebra finch song showing frequency as a function of time. Loudness scale is from yellow (soft) to black (loud.)

"We intentionally blurred the boundaries between molecular biology, neuroscience and physics. We made the strategic decision to apply innovative approaches being developed in other fields to the study of the brain." Thus, the original group of Keck Center scientists included physicist Ken Miller, who contributed enormously by bringing quantitative and theoretical methodologies into the neuroscience program.

Adopting this approach, the work of neurophysiologist Michael Merzenich and his research group capitalized on computational models for guiding research interpretation. More theoretical studies have led to new experiments, primarily investigating the neuroplasticity of cortical temporal dynamics, the neural bases of temporal coding, and the phenomenology of – and mechanisms underlying – predictive biasing. Michael holds more than 50 patents alone and with other scientists that have come at least partially out of his work with the Keck Center. His research into the organization of the auditory cortical fields in rodent models has repeatedly received critical technical support, and has led to outstanding collaborative studies with Michael Stryker.

Perhaps most significantly, the Keck Center has helped to develop a much more rigorous, theoretical approach to investigating the brain. Theoreticians at the Center pioneered this approach and have developed mathematical models based on biological principles that have proved essential to describing how complex brain circuits made up of neurons, synapses, receptors, and chemicals actually work. For example, the lab

Brain research at the Center has identified very exciting new paradigms in brain studies capitalizing on the concept that the brain is a noisy place.



Allan Basbaum studies the neurobiology of pain and its control.

of physiologist Philip Sabes applied this approach to the study of how visual feedback of the body is altered. He explains: "Humans can adapt to looking through prisms within minutes. We used engineering and statistical principles to model the 'learning rule' that underlies this form of adaptation, and were able to explain how the neural circuits underlying spatial perception could retune themselves on such a short timescale." Such work would not have been possible with behavioral observations alone.

Brain research at the Center has identified very exciting new paradigms in brain studies capitalizing on the concept that the brain is a noisy place. While this has been recognized for a long time, it is only now possible to ask where this noise comes from. Center scientists are well positioned to explore this important question with the support of a recently awarded Silvio O. Conte Centers for Neuroscience Research grant from the National Institute of Mental Health.

Perhaps even more importantly, faculty based at the Keck Center have played an important role in training the next generation of systems neuroscientists. In the past two decades, over 200 graduate students and postdoctoral fellows have trained at the Center. One-third of these scientists now hold faculty positions at universities across the United States, and most of the other scientists work in industry, private practice, or are engaged in academic research. This impact on the next generation of neuroscientists could be the Center's most enduring legacy.

STUDYING DESIGN RULES

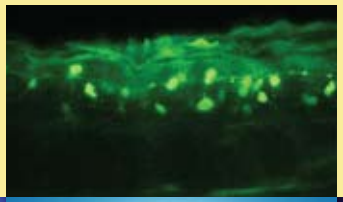
University of Oregon

In the 1970s, the University of Oregon (UO) pioneered the use of zebrafish as a model for studying the development, genetics and nervous systems of vertebrates. While some scientists at the time questioned the relevance of zebrafish to human biology, the little fish is now universally recognized as an excellent model for vertebrate embryonic development. They are transparent at birth, which allows scientists to literally see their rapid physiological development.

Because the Foundation's philosophy is to look to the future, it played a role in a major expansion of UO's zebrafish facility. Today, this center is recognized as a premier facility for studying biological mechanisms. With NIH and Keck grants, UO also launched the international Zebrafish Information Network, which serves as the zebrafish model organism database. The database is linked with similar databases for fruit flies, mice, worms and yeasts, and facilitates cross-species correlations and studies.

The combined resources of the research facility and database are now providing a way to address important health issues related to nanotechnology. Although many synthetic methods have been developed for producing nanoparticles, little is known about how nanoparticles interact with biological systems. With a recent Keck grant, researchers from UO and Oregon State University are utilizing the unique zebrafish model to develop an integrated approach for studying biological responses to nanoparticles. Successful completion of this work should define the important interactions at the bio-nano interface and the "design rules" for producing nanoparticles for specific applications such as new chemotherapy treatments and non-invasive diagnostics.

Top to bottom: Zebrafish secondary motor neurons expressing GFP; zebrafish embryo; gut-associated microbiota in larva (bacteria are red, nuclei blue and fish tissue is green).



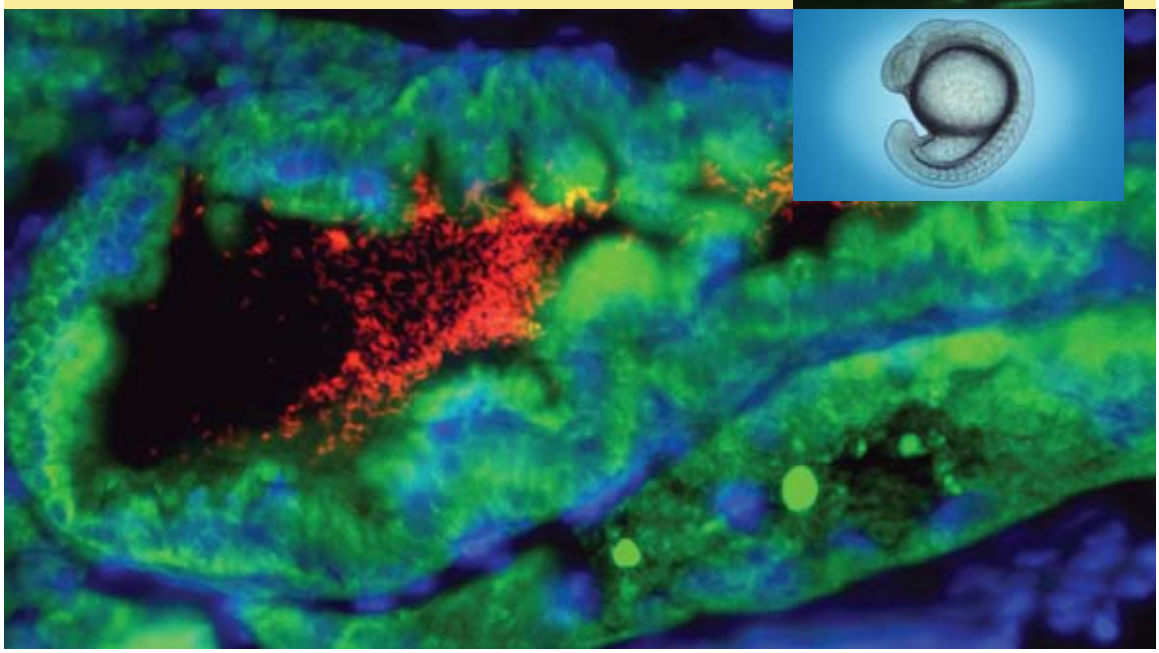
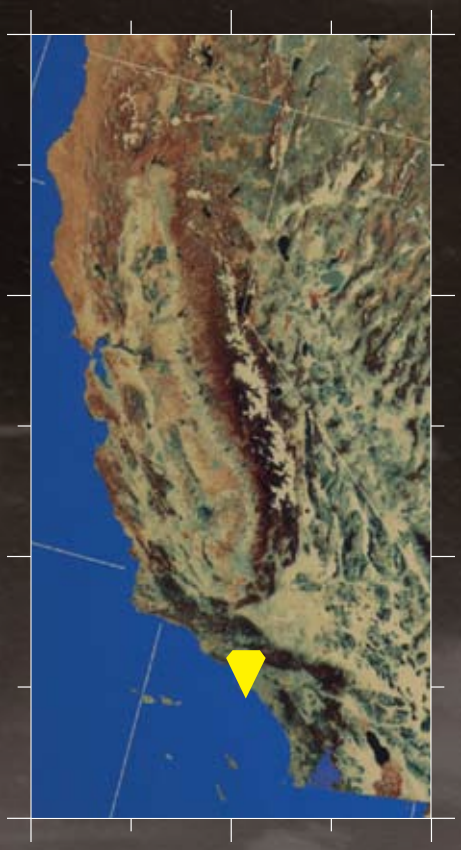


Photo courtesy of Adriana Rodriguez



Superior's early years in California
included strikes at Huntington Beach,
Santa Fe Springs and Signal Hill.

FROM THE GROUND UP: BUILDING COMMUNITY IN LOS ANGELES

California Science Center, Para Los Niños and Eisner Pediatric and Family Medical Center

Los Angeles was not always the collection of densely populated, diverse neighborhoods it is today. Oil was once pumped from the ground where high rises now stand. Today, Keck Foundation grants in the region focus on producing a different kind of wealth: the health and well-being of Angelinos. A look back at Keck grants to the California Science Center,

▲ *Three year olds Zaiyanna Williams and Viviana Ramirez learn through play at Para Los Niños Early Childhood Development Center.*

Para Los Niños and the Eisner Pediatric and Family Medical Center reflect how successful institutions transform themselves to keep pace with changing needs and emerging opportunities in their home communities.

The California Science Center is located in downtown Los Angeles in Exposition Park, near the University of Southern California. Twenty years ago, the Park was showing signs of neglect, and the museum was becoming dated, but with vision from the Center, community, philanthropy and government leaders, both have been reinvigorated. Today, the exciting California Science Center is the most visited museum in Southern California.

The first visible change was the opening of the three-story Ahmanson Building in 1998. It houses the Center's *World of Life* and *Creative World* galleries. The Keck Foundation helped bring Tess to the museum's new home. Tess is a 50-foot body simulator that demonstrates how life depends on a network of physiological systems. Tess' heart beats, her lungs inflate, and her blood and nerves pulse through her body. The exhibit was, and still is, a huge success.

Since then, the renovation of the *SKETCH Foundation Gallery/ Air and Space Exhibits* has been completed, and the Wallis Annenberg Building for Science Learning and Innovation opened. The latter is home to a charter elementary school focusing on science, math and technology and an open-air Big Lab, where children conduct hands-on science experiments. The complex houses programming for the Amgen Center for Science Learning, a resource for teacher training in the sciences. Coming next is the *World of Ecology,* which will feature live animals and plants and will recreate environments from the desert to the sea. Keck provided funding for this new exhibit pavilion to help the Center stay at the forefront of accessible and engaging science learning.

Within a few miles of Exposition Park is Skid Row. Para Los Niños was established in 1979 to provide child care for children of single mothers living nearby. The Foundation is proud to have helped this innovative

Third graders Cidney Cartwright, Amari Gaiter and Cesar Ruano investigate water samples at the California Science Center's giant open-air lab.

Pre-schoolers from Eisner Pediatric and Family Medical Center's Child Development Center listen to a recorded story of "The Three Little Pigs."

Eisner's Yolanda Rebollo gives Tatiana a well-child exam in the Pediatric Clinic.

agency expand its programs. The first grant, made two years after the agency opened, helped double the program's capacity to 90 children.

Twenty years later, Para Los Niños had grown exponentially, and evolved into a comprehensive family service agency with multiple sites in needy neighborhoods throughout the region. During the same time, the demand for affordable child care multiplied, and Para Los Niños, along with many other providers, had huge waiting lists. Keck support in 2003 allowed Para Los Niños to expand its child care services in the underserved Pico Union neighborhood.

Seeing another unmet community need, in 2005 Para Los Niños bought a building on Skid Row and created a Family Learning Complex to prepare immigrant Latino children for college. The complex is home to a child development center, a charter elementary school, after-school enrichment, and family support programs, including a health clinic. Together these programs provide a model of urban education that sets high standards and addresses the needs and aspirations of children and their families struggling with the consequences of poverty. Today, Para Los Niños serves over 3,500 children and is getting ready to open a charter middle school.

Located midway between Skid Row and Exposition Park is the Eisner Pediatric and Family Medical Center. Founded in 1920, the agency was ready to build its first permanent home in the early 1980s and sought help from local foundations and the Community Redevelopment

Eisner's outdoor play yard allows children to have fun developing motor and social skills in a safe environment.

Agency. Its new building was completed in 1985. At that time, Eisner had a staff of 40 and was just beginning to treat adults in addition to children. In a move that was unusual for a medical center, it operated an early intervention program for diagnosing and treating speech and language delays, as well as a child care center.

As the need for health care grew, especially among the working poor who could not afford insurance, the agency responded, adding more services. More than a decade later, it ran out of space and embarked on a second expansion campaign. With Keck support in 2003, the agency doubled its physical plant. Today, it has a staff of 240 and serves over 20,000 people annually. The adult clinic includes a chronic disease management program and a Women's Health Center. The pediatric program has almost doubled and has added asthma and obesity clinics as well as a larger dental program. For the first time, Eisner is able to offer mental health services and is also adding new early intervention programs.

The growth of these three organizations continues with multiple collaborations evolving naturally from their shared focus on the well-being of residents living downtown. The California Science Center is partnering with Para Los Niños to enrich its science curriculum, Eisner operates the health clinic at Para Los Niños' Family Learning Complex, and Para Los Niños runs the child care program at Eisner. The work of these agencies, individually and collectively, is indeed producing a new kind of wealth for Angelinos.

MOBILIZING RESOURCES

Los Angeles Regional Foodbank

In Los Angeles County, one of every 10 people must make the intolerable choice between buying food, paying rent or purchasing medications. Fortunately, for some, these decisions are made easier by the services of the Los Angeles Regional Foodbank. Founded in 1973 in Pasadena and now located in south Los Angeles, the Foodbank's mission is to "mobilize resources to fight hunger in our community." Over the years, it has continued to evolve to meet the challenge of ever-increasing demand due to economic hardship.

At critical junctures in its history, the Foodbank turned to Keck for support. Over time, the Foundation made grants to help it construct its first permanent facility, purchase freezers, and renovate and equip two additional warehouses. When the Foundation made its first grant in 1989, the Foodbank distributed over 18 million pounds of surplus food, equal to 14 million meals, to 425 charitable agency sites. Today it distributes 36 million pounds, or roughly 28 million meals, through a network of 900 charitable agency sites helping to feed 674,000 people annually.

Responding to shifts in the types of food available and the needs of the people it serves, the Foodbank is forging new supply networks and grappling with space and logistics to obtain, store and deliver healthier food products, including fresh fruits and vegetables. With vision and energy, anything is possible.

Volunteer groups sort and package food for distribution to charities. The Foodbank relies on the help of 13,000 volunteers each year.

The Keck Foundation believes that it is the people in the field, those with the expert knowledge of their subject, who can best identify scientific or societal problems, and the potential ways to solve them. The Foundation's partnerships over the last several decades have shown that facilitating the work of strong institutions led by accomplished people pays great dividends. Looking back, we see that some of our most lasting partnerships are among the most fruitful. Our greatest reward is to hear that an investment made five, 10 or even 20 years ago continues to bring returns far above the dollar amount originally invested. We believe that the most important returns are in human capital, and therefore, look for good people doing extraordinary things. We will continue to seek out projects with the highest potential for long-lasting impact on science and society, knowing that it takes imagination, courage and the willingness of the people in the field to take risks to realize the greatest returns.

2007 GRANTS

Carnegie Institution of Washington
$1,200,000
Washington, DC
To study how abiotic processes in the deep Earth are related to the emergence and development of life.

Colorado State University
$1,100,000
Fort Collins, CO
To support the development of a single atom on-demand laser source for quantum computers.

Cornell University
$2,190,000
Ithaca, NY
To develop a novel X-ray detector for studying material dynamics at microsecond time scales.

Drexel University
$1,000,000
Philadelphia, PA
To use nanotechnology to develop an instrument for transferring fluid volumes in the attoliter range, leading to development of subcellular tools that can be used for medical diagnosis and treatment.

Georgia Institute of Technology
$2,000,000
Atlanta, GA
To develop nanopatterned epitaxial graphene electronic devices that work at room temperature.

National Academy of Sciences
$500,000
Washington, DC
To support a study of America's energy future: technology opportunities, risks and tradeoffs.

University of California, Davis
$1,500,000
Davis, CA
To support the development of a novel imaging detector for use in the Large Synoptic Survey Telescope.

University of California, Santa Barbara
$1,750,000
Santa Barbara, CA
To develop new technology for using terahertz spectroscopy to study protein dynamics.

University of Chicago
$1,800,000
Chicago, IL
To study the basic processes controlling catastrophic deformation in both physical and biological systems ranging from fluid-like to solid-like behavior.

University of Pittsburgh
$1,000,000
Pittsburgh, PA
To develop an ultra-fast method for scanning tunneling microscopy.

Special Project

California Institute of Technology
$24,000,000
Pasadena, CA
To establish an Institute for Space Studies.

UNDERGRADUATE SCIENCE AND ENGINEERING

Hampton University
$425,000
Hampton, VA
To incorporate genomics into the biology curriculum by setting up undergraduate DNA microarray and bioinformatics labs.

St. Edward's University
$260,000
Austin, TX
To establish an interdisciplinary undergraduate research project on HIV drug resistance that will also be integrated into a course on science literacy.

St. Lawrence University
$500,000
Canton, NY
To facilitate the development of interdisciplinary learning environments for science, technology, engineering and mathematics.

Texas Lutheran University
$250,000
Seguin, TX
To enhance the physics and pre-engineering programs by purchasing an NMR to establish a Transport Lab for hands-on student learning.

MEDICAL RESEARCH

Arizona State University
$1,200,000
Tempe, AZ
To study frameshift peptides common to many types of tumors as targets for a cancer vaccine.

Carnegie Mellon University
$1,100,000
Pittsburgh, PA
To research how the brain composes neural representations of word and sentence meanings from their component parts.

City of Hope
$1,500,000
Duarte, CA
To continue work to understand the molecular mechanisms underlying cancer and develop therapies that destroy lymphoma cells without harming normal cells.

Stanford University
$1,300,000
Stanford, CA
To develop massively parallel brain imaging technology to study the neuronal circuitry in decision making and behavior in the fruit fly.

Translational Genomics Research Institute
$1,000,000
Phoenix, AZ
To develop network models of biological function using signal processing and control theory.

University of California, Los Angeles
$1,800,000
Los Angeles, CA
To develop stem cell technology to engineer human immune cells for targeted cancer treatments.

University of California, San Francisco
$1,750,000
San Francisco, CA
To characterize and understand the function of the non-protein coding RNA genes by developing new mouse models for human disease.

University of Massachusetts Medical School
$1,500,000
Worcester, MA
To study how asymmetric cell division affects aging and longevity in somatic and stem cells.

University of Oregon
$1,600,000
Eugene, OR
To study biological interactions of engineered nanoparticles and establish fundamental design rules for biomedical applications.

University of Texas - M. D. Anderson Cancer Center
$2,000,000
Houston, TX
To understand molecular mechanisms behind the generation of immunosuppressive T-cells in the thymus and tumor microenvironment and to develop cancer immunotherapies.

DISTINGUISHED YOUNG SCHOLARS IN MEDICAL RESEARCH

$1,000,000 per award

Baylor College of Medicine
Houston, TX
To support Dr. Xander Wehren's work to define the mechanisms by which junctional membrane complexes regulate intracellular calcium release in normal and diseased hearts.

Harvard University
Cambridge, MA
To support Dr. Amy Wagers' work to identify blood-borne rejuvenating factors and determine how they correct aged stem cell function.

Memorial Sloan-Kettering Cancer Center
New York, NY
To support Dr. Jennifer Zallen's studies to identify the molecular mechanisms by which groups of cells coordinate their shape and movement to build the characteristic morphologies of tissues and organs.

University of California, San Francisco
San Francisco, CA
To support Dr. Wallace Marshall's studies to understand how cilia assemble and function with the goal of learning ways to diagnose and treat ciliary diseases.

University of Massachusetts Medical School
Worcester, MA
To support Dr. Job Dekker's work to map networks of interactions between genes to identify which elements regulate each gene in normal and disease states.

Research Excellence Awards

$10,000 per award

Washington University in St. Louis
Dr. Emily Cheng

University of Alabama at Birmingham
Dr. Michael Miller

California Institute of Technology
Dr. Angelike Stathopoulos

Princeton University
Dr. Hilary Coller

University of California at Los Angeles
Dr. Mark Frye

LIBERAL ARTS

Carleton College
$300,000
Northfield, MN
To support expansion of the Quantitative Inquiry, Reasoning, and Knowledge Initiative to non-science disciplines.

Millsaps College
$400,000
Jackson, MS
To support interdisciplinary undergraduate archaeological research focused on the comparative study of an Old World and a New World culture.

SOUTHERN CALIFORNIA PROGRAM

Arts and Culture

Armory Center for the Arts
$125,000
Pasadena, CA
To provide free after-school art classes and weekend workshops for children, youth and families in the Madison neighborhood of Pasadena.

Civic and Community

Alliance for Children's Rights
$200,000
Los Angeles, CA
To support a two-year collaborative effort to ensure that eligible, disabled youth leaving foster care receive Supplemental Security Income.

Boy Scouts of America, Los Angeles Area Council
$250,000
Los Angeles, CA
To increase camping opportunities for inner-city Los Angeles youth by rebuilding the scout camp at Lake Arrowhead.

Children's Planning Council
$450,000
Los Angeles, CA
To improve school readiness and academic outcomes for Los Angeles County's foster care and probation youth by implementing *Expecting More*, the Education Coordinating Council's blueprint for change.

East Los Angeles Remarkable Citizens Association, Inc.
$150,000
Los Angeles, CA
To provide social, medical, and therapeutic services to adults with developmental disabilities by building a new multipurpose center in the City of Bell.

Loyola Marymount University
$750,000
Los Angeles, CA
To expand Loyola Law School's Center for Juvenile Law and Policy, which represents youth in the Los Angeles juvenile justice system and trains law students in child advocacy.

Penny Lane
$400,000
North Hills, CA
To consolidate and expand child welfare, family support and mental health programs in the Antelope Valley by building a new family center.

Project Angel Food
$250,000
Los Angeles, CA
To expand the meal delivery program to clients with serious, life-threatening illnesses by acquiring and renovating a new facility.

Health Care

Mission Community Hospital
$750,000
Panorama City, CA
To provide dental service in partnership with UCLA to low-income residents of the northeast San Fernando Valley by constructing a dental teaching clinic.

St. John's Well Child & Family Center
$300,000
Los Angeles, CA
To establish an integrated care center for chronic and environmentally-based diseases by renovating a building in South Los Angeles.

Precollegiate Education

Para Los Niños
$500,000
Los Angeles, CA
To expand a charter elementary school and after-school and family support programs by purchasing and renovating a new facility.

Parent Institute for Quality Education, Inc.
$225,000
San Diego, CA
To increase the number of minority, low-income students who attend college by supporting a parent-involvement program in collaboration with the California State University system.

Saint Mary's Academy
$300,000
Inglewood, CA
To enhance science and math education for girls by modernizing facilities and equipment and revising the curriculum in partnership with Mount St. Mary's College.

2007

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

December 31 (in thousands)	2007	2006
ASSETS		
Cash and cash equivalents	$ 58,430	$ 48,255
Receivable from brokers	2,935	1,342
Interest receivable	1,961	2,157
Dividends receivable	1,287	665
Other receivables	72	–
Prepaid federal excise taxes	352	38
Prepaid expenses	252	215
Investments at fair value	1,465,511	1,356,518
Fixed assets, net	967	1,071
Total assets	$ 1,531,767	$ 1,410,261
LIABILITIES AND NET ASSETS		
Payable to brokers	$ 5,466	$ 4,669
Accounts payable and accrued expenses	1,914	2,438
Grants payable, net (Note 6)	40,864	39,989
Deferred federal excise taxes payable	6,875	6,134
Total liabilities	55,119	53,230
Unrestricted net assets	1,476,648	1,357,031
Total liabilities and unrestricted net assets	$ 1,531,767	$ 1,410,261

See accompanying notes.

STATEMENTS OF ACTIVITIES

Years ended December 31 (in thousands)	2007	2006
REVENUE:		
Interest	$ 12,456	$ 11,787
Dividends	13,208	10,490
Other income	533	524
	26,197	22,801
Realized and unrealized gains and losses on investments:		
Net realized gains	142,020	137,672
Change in net unrealized gains and losses	36,783	(13,064)
	178,803	124,608
Total revenues and net realized and unrealized gains and losses on investments	205,000	147,409
EXPENSES:		
Grants	68,764	67,475
Management and general services	6,463	6,320
Investment management fees	7,427	7,286
Federal excise tax provision	2,353	2,786
Foreign tax withheld	376	137
Total expenses	85,383	84,004
Change in unrestricted net assets	119,617	63,405
Unrestricted net assets, beginning of year	$ 1,357,031	$ 1,293,626
Unrestricted net assets, end of year	$ 1,476,648	$ 1,357,031

See accompanying notes.

STATEMENTS OF CASH FLOWS

Years ended December 31 (in thousands)	2007	2006
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 119,617	$ 63,405
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	331	324
Accretion of bond discounts	(228)	(119)
Net realized gains on investments	(142,020)	(137,672)
Change in net unrealized gains and losses on investments	(36,783)	13,064
Changes in operating assets and liabilities:		
Receivable from brokers	(1,593)	9,708
Interest receivable	196	(156)
Dividends receivable	(622)	212
Other receivable	(72)	–
Prepaid expenses	(37)	(168)
Deposits	–	40
Prepaid federal excise taxes	(314)	1,903
Payable to brokers	797	(3,598)
Accounts payable and accrued expenses	(524)	(117)
Deferred federal excise taxes payable	741	(266)
Grants payable	875	17,585
Net cash used in operating activities	(59,636)	(35,855)
INVESTING ACTIVITIES		
Purchase of investments	(801,774)	(918,365)
Proceeds on disposition of investments and return of capital	871,812	937,426
Acquisition of fixed assets, net	(227)	(129)
Net cash provided by investing activities	69,811	18,932
Net increase (decrease) in cash and cash equivalents	10,175	(16,923)
Cash and cash equivalents, beginning of year	48,255	65,178
Cash and cash equivalents, end of year	$58,430	$48,255
SUPPLEMENTAL DISCLOSURE		
Taxes paid during the year	$ 1,925	$ 1,150

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

1. ORGANIZATION

Formation and Goals of the Foundation

The W. M. Keck Foundation (the Foundation) was incorporated in the state of Delaware on January 20, 1959, as a not-for-profit charitable corporation. The Foundation's goals are principally to identify and support university and college research and education programs in the areas of science, engineering and medicine. In addition, the Foundation gives some consideration to promoting liberal arts education and, in Southern California only, to supporting community services, health care, precollegiate education, and the arts. Operations are funded by the Foundation's earnings on its investment portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions Received and Grant Payments Made

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made,* unconditional grant payments are recognized as an expense in the period in which they are approved. If these grants are to be paid over a period exceeding one year, they are recorded at the net present value of the future cash payments, using an applicable Treasury Bill rate. Grants, which are conditional upon a future and uncertain event, are expensed when these conditions are substantially met or expected to be met in the subsequent year. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Cash and Cash Equivalents

Cash and cash equivalents are defined as liquid investments with original maturities of three months or less.

Investments

SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations,* requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value. The Foundation has adopted this policy, and thus, records all investments at fair value. Fair value is determined based on quoted market prices for those securities that trade on the open market.

The Foundation's interests in partnerships are carried at estimated fair value based on the Foundation's proportionate interest. In the absence of market price quotations, the fair value of the investments is determined by the general partner. Investments for which exchange quotations are not readily available are valued at the latest bid price obtained from one or more dealers making a market for such securities or at estimated fair values as determined in good faith by the general partner. Investments for which exchange quotations are not readily available may include specific classes or series of an issuer's equity or debt securities. The methods and procedures to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities, (2) obtaining valuation-related information from issuers, and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Purchases and sales of securities are recorded on the trade date. Dividend income is recorded based upon the ex-dividend date. Interest income is recorded as earned on an accrual basis. Realized gains and losses are recorded upon disposition of securities based on the specific identification method. The allocation of cost to a sale, where part of a holding is disposed of, assumes that the highest-priced items are sold first. Unrealized gains and losses are included in the statements of activities and represent the net change in current market quotations for investments held at the end of the year.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of each type of asset or the term of the related lease, whichever is shorter. The depreciable lives for leasehold improvements are between ten and 15 years and the lives for furniture and equipment are five years.

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected

to be taken in a tax return, among other things. In February 2008, the FASB issued FIN 48-2 delaying the effective date of FIN 48 for certain nonpublic enterprises until fiscal years beginning after December 15, 2007. The Foundation is currently evaluating the impact that adopting this standard will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact that adopting this standard will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Foundation has elected not to measure any eligible financial assets and liabilities at fair value.

3. INVESTMENTS

The cost and fair value of investments are as follows (in thousands):

	December 31, 2007		December 31, 2006	
(in thousands)	Cost	Fair Value	Cost	Fair Value
Common stock	$ 476,832	$ 736,412	$ 613,255	$ 875,590
Corporate bonds	74,467	71,991	73,819	74,470
Government bonds	8,567	8,771	21,915	21,831
Foreign investments	126,090	171,126	159,403	189,616
Mortgage and asset-backed securities	49,285	49,322	43,384	42,776
Mutual funds	82,025	81,067	–	–
Alternative investments	304,511	346,822	137,791	152,235
	$ 1,121,777	$ 1,465,511	$ 1,049,567	$ 1,356,518

Mortgage and asset-backed securities in the prior year have been reclassified from government bonds to be consistent with the presentation of the current year's categorization of investments.

The change in net unrealized gain (loss) on investments is reflected in the statements of activities and is summarized as follows (in thousands):

	Years Ended December 31	
(in thousands)	2007	2006
Net unrealized gain, beginning of year	$ 306,951	$ 320,015
Add net unrealized gain (loss) on investments for the year	36,783	(13,064)
Net unrealized gain, end of year	$ 343,734	$ 306,951

Alternative investments

As of December 31, 2007, the Foundation has made total capital contributions (net of distributions) of $304,511,000 to nine partnerships and two foreign corporations. The Foundation has a total future capital commitment related to five of these partnerships of $119,575,000.

4. FIXED ASSETS

Fixed assets consist of the following (in thousands):

		December 31	
(in thousands)	Estimated Life	2007	2006
Leasehold improvements	10–15 years	$ 2,549	$ 2,503
Furniture and equipment	5 years	1,447	1,266
Less accumulated depreciation		(3,029)	(2,698)
Total fixed assets, net		$ 967	$ 1,071

The amount of depreciation included in management and general services was approximately $331,000 and $324,000 in 2007 and 2006, respectively.

5. FEDERAL EXCISE TAX

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is classified under the Internal Revenue Code as a private foundation and, as such, is subject to a federal excise tax.

During 2007, the Foundation has accrued a 1% excise tax on net investment income (2% in 2006). Private foundations are required to distribute annually, in qualifying charitable distributions, an amount equal to approximately 5% of the average fair market value of the Foundation's assets (the minimum distribution). If the Foundation does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under IRC §4942(a) will apply. The Foundation's annual distributions were in excess of the required minimum for 2007 and 2006 to avoid the 30% penalty. Although the Foundation does have cumulative undistributed income at December 31, 2007, based on the Foundation's distribution history, the Foundation will be able to distribute the cumulative undistributed income from December 31, 2007, in 2008. Accordingly, the Foundation has not accrued for the penalty on undistributed income.

The Foundation uses the liability method required by Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes, for accounting for excise taxes. The federal excise tax provision consists of the following (in thousands):

	Years Ended December 31	
(in thousands)	2007	2006
Current	$ 1,612	$ 3,053
Deferred	741	(267)
	$ 2,353	$ 2,786

Deferred federal excise taxes have been recorded on the unrealized appreciation in fair value of investments at a tax rate of 2% in 2007 and in 2006.

6. GRANTS PAYABLE AND CONDITIONAL GRANT COMMITMENTS

Grants payable and conditional grant commitments as of December 31, 2007, are as follows (in thousands):

(in thousands)	Unconditional	Conditional
2008	$ 34,267	$ 2,850
2009 – 2012	7,050	62,293
2013 and thereafter	–	18,147
	41,317	$ 83,290
Less present value discount	(453)	
	$ 40,864	

Projected timetable and payment amounts shown above for conditional grants are estimated. Conditional grants will be recorded as an expense in the period when the conditions to the grant are substantially met. These grants are conditioned upon other donors matching the amounts contributed by the Foundation, receipt of building permits and other regulations, and compliance with budget, timetable, and grant agreements' requirements.

Conditional grants outstanding as of December 31, 2007, consist of the following (in thousands):

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding
University of Southern California	1999	$ 103,000	$ 33,000
National Academy of Sciences	2002	40,000	24,000
Keck Graduate Institute of Life Sciences	2004	20,000	5,000
California Institute of Technology	2007	24,000	18,000
Other	Various	3,000	3,000
		$ 190,000	$ 83,000

7. LEASE COMMITMENTS

The Foundation leases its main office space under a 15-year noncancelable operating lease. The lease agreement includes free rent for the first two years and rent escalation terms thereafter. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2007, the approximate future minimum lease obligation for the lease is as follows:

Year ending December 31:	
2008	$ 391,000
2009	400,000
2010	500,000
2011	500,000
2012	500,000
Thereafter	959,000
	$ 3,250,000

Total rental expense for each of the years ended December 31, 2007 and 2006, was approximately $360,000. Deferred rent was approximately $758,000 and $790,000 at December 31, 2007 and 2006, respectively.

8. EMPLOYEE PENSION PLAN

The Foundation maintains a qualified 401(k) Profit Sharing Plan (the Plan) for eligible employees. Employees can contribute a percentage of their pretax compensation subject to IRS limitations. The Foundation matches 200% of the employee's deferral, but not more than 6% of the employee's compensation in total. The Foundation's matching contributions were approximately $177,500 and $152,000 for the years ended December 31, 2007 and 2006, respectively.

9. RELATED-PARTY TRANSACTIONS

A director and an officer of the Foundation are partners of a law firm that provided legal services to the Foundation. The Foundation incurred legal fees for services provided by the law firm totaling $499,000 and $530,000 for the years ended December 31, 2007 and 2006, respectively..

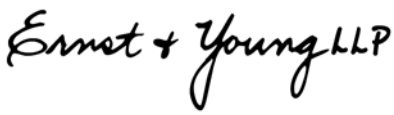
REPORT OF INDEPENDENT AUDITORS

The Board of Directors
W. M. Keck Foundation

We have audited the accompanying statements of financial position of the W. M. Keck Foundation as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the W. M. Keck Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the W. M. Keck Foundation at December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



April 16, 2008

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ACKNOLWEDGEMENTS

We thank our contacts and grantees at the following institutions for their invaluable help:
Baylor College of Medicine
California Science Center
Eisner Pediatric and Family Medical Center
Los Angeles Regional Foodbank
Para Los Niños
Rice University
Trinity University
Tulane University
University of California, San Francisco
University of Oklahoma
University of Oregon
Xavier University

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Page 15: OU National Weather Center: Roger Fritchie; Storm: Ming Xue and Greg Foss; and Vortex: Geosciences Computing Network
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Page 39: Photos of volunteers: Ana Martinez

Printed on Recycled Paper ♻

Printing: COLORGRAPHICS

Photography: KEITH WOOD

Design: THE JEFFERIES ASSOCIATION